

	Number of ITINs [23]	Number of Tax Returns Filed	Amount
Refunds	55,610	102,303	\$202,271,388
Balance Due	12,789	14,914	\$26,455,688
No Taxes Owed	3,934	4,384	-----

*Sources: Data from the ITIN Real-Time System and from the IRS Returns Transaction File for tax return s filed using ITINs and processed in Calendar Year 2008.*

### **There has been a reduction in the number of multiple ITINs issued to the same taxpayer**

A recent IRS study<sup>[24]</sup> identified that 4 percent of individuals applying for ITINs already had an ITIN assigned to them and that 30 percent of these individuals were assigned multiple ITINs. The study further estimated that approximately \$60 million per year in erroneous refunds were issued for ITIN cases routed to the Accounts Management function. \*\*\*\*1\*\*\*\* The IRS study reported that the process used to ensure that multiple ITINs are not assigned to the same individual was inefficient.

The IRS is attempting to reduce duplicate ITINs by streamlining its prescreening process. Starting January 2008, employees check for duplicate status before inputting the ITIN application data and flag potential duplicates for further research. The IRS cites that the new procedures have reduced the percentage of individuals being assigned a duplicate ITIN from 30 percent to 6 percent. Using the same prescreening process the employees used, the IRS conducted a review of duplicates during the period of June 3 through 12, 2009. The results showed the requests for duplicate ITINs were 671 (18 percent) of the 3,668 requests. However, of the 671 ITINs, 3 percent were still missed during the prescreening process and duplicate ITINs were issued. The IRS did not record the ITINs for the 3 percent that resulted in duplicates; therefore, it cannot be determined which ITINs needed to be resolved.

### **Recommendation**

**Recommendation 4:** The Commissioner, Wage and Investment Division, should develop controls to prevent ITINs from being used on multiple tax returns, including ITINs used for secondary taxpayers and dependents.

**Management's Response:** The IRS disagreed with this recommendation stating that tax returns submitted with a duplicate secondary/dependent ITIN are subject to compliance review after the return is processed and corrected as necessary, similar to duplicate Social Security Number use.

**Office of Audit Comment:** The compliance review is not a 100 percent review and only a small number of ITIN tax returns are subject to audit and would be corrected. We believe controls should be developed during processing and before the tax refunds are issued. This is comparable to how the IRS ensures dependents are not claimed on more than one tax return. During the processing of electronic tax returns, the IRS will, with some exceptions, reject the second tax return submitted that used a duplicate Social Security Number.

### **The Real-Time System Contains Inaccurate Data and Is Insufficient to Oversee the Program**

The IRS states that the Real-Time System provides a one-stop service for processing Forms W-7 and issuing ITINs. The System processes Forms W-7 in real-time and assigns the ITIN or creates reject or suspense Forms W-7 automatically. Nevertheless, the information does not accurately reflect what type of agent submitted the Forms W-7 and does not accurately reflect the information captured from the Forms W-7.

Research on the Real-Time System for 547 cases in our statistical sample found that 270 records (49 percent) contained inaccurate information relating to what type of Agent submitted the application.

- 136 Forms W-7 (25 percent) were listed on the Real-Time System as submitted by Acceptance Agents when they were actually submitted by Certified Acceptance Agents.
- 134 Forms W-7 (24 percent) were listed on the Real-Time System with no designation of the type of agent but were actually submitted by Certified Acceptance Agents.

The IRS does not know the volume of Forms W-7 that are submitted by Certified Acceptance Agents and, if not corrected, approximately 200 Certified Acceptance Agents may not be included in any compliance activity.

Information reflected on 110 (20 percent) of the 547 Forms W-7 was not transcribed correctly to the Real-Time System. Transcription errors included incorrect identification documents, birth dates, codes/reasons for submitting the Forms W-7, names, and/or addresses. Figure 7 provides a breakdown of the number of transcription errors for the statistically valid samples. There is a potential that 318,107 taxpayer ITIN Forms W-7 were incorrectly input into the IRS Real-Time System (1,590,535 projected over 5 years).

**Figure 7: Errors Identified on the Real-Time System**

	Acceptance Agent		Blank Designation		Directly Mailed or Submitted to an IRS Office.		Certified Acceptance Agent Residing in the U.S.		Certified Acceptance Agent Residing Outside the U.S.		Total
Errors	24	18%	24	18%	28	23%	11	12%	23	37%	110
No Errors	112	82%	110	82%	95	77%	80	88%	40	63%	437
Totals	136	100%	134	100%	123	100%	91	100%	63	100%	547

Source: Our analysis of Forms W-7 submitted during the period January 1 through November 21, 2008.

The Forms W-7 submitted by the Certified Acceptance Agents are accepted without a review. The certificates of accuracy are not matched to the Forms W-7 and, in other instances, the Agents attach documents that do not match the Form W-7 information.

For example, \*\*\*\*1\*\*\*\* In both instances, the ITIN was issued.

The Government Accountability Office *Standards for Internal Control in the Federal Government* states that relevant, reliable, and timely information is needed in order to achieve program objectives. The IRS needs to improve its Real-Time System and its management controls to effectively manage the ITIN Program. The IRS does not have sufficient management information concerning the volume or type of Agents that submit ITIN applications to the IRS. Additionally, the IRS does not validate and input all Form W-7 information. Without this information, the IRS may not know where to focus resources or compliance reviews that are being planned.

## Recommendations

The Commissioner, Wage and Investment Division, should:

**Recommendation 5:** Ensure the data on the Real-Time System are accurate and validate the records that indicate an agent submitted the application to ensure that the ITIN Program has accurate and reliable data to oversee the Program.

**Management's Response:** The IRS agreed with this recommendation and is taking corrective actions to update the Real-Time System. These actions are contingent on funding.

**Recommendation 6:** Develop procedures and internal controls to monitor the Real-Time System to ensure information entered is accurate.



**Management's Response:** The IRS agreed with this recommendation and is taking corrective actions to update the Real-Time System with viable report capability which will allow the ITIN Program Office to appropriately monitor the Real-Time System to ensure the information entered is accurate. This action is contingent on funding.

However, the IRS disagreed with our estimate in Appendix IV that 318,107 taxpayer ITIN Forms W-7 were incorrectly input into the IRS Real-Time System. The IRS stated the outcome measure was based on an incorrect calculation—that 318,017 should be 311,579 based on its calculation of  $(110/547) \times 1,549,397$ .

**Office of Audit Comment:** The IRS' calculation does not incorporate the weighting of the strata. The 318,017 taxpayers were calculated using 5 strata, and the errors were based on each stratum and then totaled. See Appendix IV for details.

## Appendix I

### **Detailed Objective, Scope, and Methodology**

The overall objective of this review was to determine whether Applications for IRS Individual Taxpayer Identification Number (Form W-7) were efficiently and effectively processed and ITINs were appropriately issued. To accomplish the objective, we:

- I. Determined whether the Austin, Texas, Campus<sup>1251</sup> is ensuring Forms W-7 are efficiently and effectively processed and ITINs appropriately issued.
  - A. Randomly selected 658 cases listed on the Real-Time System using 3 statistically valid samples of Forms W-7 submitted to the IRS during the period January 1 through November 21, 2008. The Forms W-7 were mailed to us from the Federal Records Center for sample 1 and letters were mailed to Certified Acceptance Agents residing in the U.S. and to Certified Acceptance Agents residing outside the U.S. for samples 2 and 3. We determined the accuracy of the Forms W-7 and the supporting documentation.
    1. Randomly selected a sample of 138 Forms W-7 from a population of 1,167,136 that were identified on the Real-Time System as being directly mailed to an IRS office. Our sample size was selected based on a 10 percent error rate, a  $\pm 5$  percent precision rate, and a 95 percent confidence level. The sample was originally 138 but 15 cases were dropped from the sample because documentation was not provided, which limited the sample to 123.
    2. Randomly selected a statistically valid sample of 349 Forms W-7 from a population of 341,931 that were identified on the Real-Time System as being submitted to the IRS by a domestic Certified Acceptance Agent. Our sample size was selected based on a 35 percent error rate, a  $\pm 5$  percent precision rate, and a 95 percent confidence level. One case was dropped from the sample limiting the sample to 348. We contacted the Certified Acceptance Agents to obtain copies of the Forms W-7, tax returns, and supporting documents. The 35 percent error rate was used based on the expected number of Agents that may not respond to our request for information.
    3. Randomly selected a statistically valid sample of 194 Forms W-7 from a population of 20,939 that were identified on the Real-Time System as being submitted to the IRS by a foreign Certified Acceptance Agent. Our sample size was selected based on a 15 percent error rate, a  $\pm 5$  percent precision rate, and a 95 percent confidence level. Seven cases were dropped from this sample limiting the sample to 187. We contacted the Certified Acceptance Agents to obtain copies of the Forms W-7, tax returns, and supporting documents. The 15 percent

expected error rate was used based on the expected number of Agents that may not respond to our request for information.

- B. Randomly selected 547 cases listed on the Real-Time System using 5 statistically valid samples of Forms W-7 submitted to the IRS during the period January 1 through November 21, 2008. Case information was compared to the data entered on the Real-Time System. The random selections of samples were selected by using computer software and applying a random number indicator to select the samples. The Federal Records Center mailed the Forms W-7 to us.
1. Randomly selected a sample of 138 Forms W-7 from a population of 1,167,136 that were identified on the Real-Time System as being directly mailed to an IRS office. Our sample size was selected based on a 10 percent error rate, a  $\pm 5$  percent precision rate, and a 95 percent confidence level. The sample was originally 138 but 15 cases were dropped from the sample limiting the sample to 123.
  2. Randomly selected a statistically valid sample of 94 Forms W-7 that were submitted to the IRS by a domestic Certified Acceptance Agent from a population of 341,931. Our sample size was selected based on a 10 percent error rate, a  $\pm 5$  percent precision rate, and a 90 percent confidence level. The Forms W-7 were mailed to us from the Federal Records Center and we selected the first cases received. Three cases were dropped from the sample limiting the sample to 91.
  3. Randomly selected a statistically valid sample of 66 Forms W-7 that were submitted to the IRS by a foreign Certified Acceptance Agent from a population of 20,939. Our sample size was selected based on a 7 percent error rate, a  $\pm 5$  percent precision rate, and a 90 percent confidence level. Three cases were dropped from the sample limiting the sample to 63.
  4. Randomly selected a statistically valid sample of 137 Forms W-7 from a population of 12,394 that were identified on the Real-Time System as being submitted to the IRS by an Acceptance Agent. Our sample size was selected based on a 10 percent error rate, a  $\pm 5$  percent precision rate, and a 95 percent confidence level. The Forms W-7 were mailed to us from the Federal Records Center and we selected the first cases received. Once received, we determined that Certified Acceptance Agents had submitted the Forms W-7. One Form W-7 was not received limiting the sample to 136.
  5. Randomly selected a statistically valid sample of 136 Forms W-7 from a population of 6,997 with no designations on the Real-Time System. Our sample size was selected based on a 10 percent error rate, a  $\pm 5$  percent precision rate, and a 95 percent confidence level. Two cases were not received and the sample was limited to 134.
- C. Selected two samples from the cases in Step I.B. to determine the accuracy of the Real-Time System. Case information was compared to the data entered on the Real-Time System. The Forms W-7 were mailed to us from the Federal Records Center. To select the samples we:
1. Randomly selected a statistically valid sample of 137 Forms W-7 from a population of 12,394 that were identified on the Real-Time System as being submitted to the IRS by an Acceptance Agent. Our sample size was selected based on a 10 percent error rate, a  $\pm 5$  percent precision rate, and a 95 percent confidence level. Additional research determined these were not submitted by Acceptance Agents, but were submitted by Certified Acceptance Agents. The requirements for the sample for Certified Acceptance Agents had already been met. One Form W-7 was not received limiting the sample to 136.
  2. Randomly selected a statistically valid sample of 136 Forms W-7 from a population of 6,997 with no designations on the Real-Time System. There was no designation reflected on the Real-Time System of whether a Certified Acceptance Agent or Acceptance Agent had submitted the application package. Our sample size was selected based on a 10 percent error rate, a  $\pm 5$  percent precision rate, and a 95 percent confidence level. Review of the documents



found the cases to be submitted by Certified Acceptance Agents. The requirements for the sample for Certified Acceptance Agents had already been met. Two cases were not received and the sample was limited to 134.

- II. Conducted computer analysis to identify from the Returns Transaction File<sup>126</sup> individual income tax returns processed in Calendar Years 2008 and 2009 that were filed reflecting a primary, secondary, and/or dependent with an ITIN. We assessed the reliability of the Returns Transaction File by performing run-to-run balancing and verifying a sample of all fields against the IRS Integrated Data Retrieval System.<sup>127</sup>
- III. Determined whether the IRS has implemented controls to reduce the number of duplicate ITINs from being issued.

## Appendix II

### **Major Contributors to This Report**

Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services)  
 Augusta R. Cook, Director  
 Lena Dietles, Audit Manager  
 Roberta Fuller, Lead Auditor  
 Jean Bell, Senior Auditor  
 Kenneth Carlson, Senior Auditor  
 Tracy Harper, Senior Auditor  
 Patricia Jackson, Senior Auditor  
 Kathy Coote, Auditor  
 Jerry Douglas, Auditor  
 Mary Keyes, Auditor  
 Nelva Usher, Auditor

## Appendix III

### **Report Distribution List**

Commissioner C  
 Office of the Commissioner – Attn: Chief of Staff C  
 Deputy Commissioner for Operations Support OS  
 Deputy Commissioner for Services and Enforcement SE  
 Deputy Commissioner, Wage and Investment Division SE:W  
 Director, Customer Account Services, Wage and Investment Division SE:W:CAS  
 Director, Customer Assistance, Relationships, and Education, Wage and Investment Division SE:W:CAR  
 Director, Strategy and Finance, Wage and Investment Division SE:W:S  
 Senior Operations Advisor, Wage and Investment Division SE:W:S  
 Director, Submission Processing, Wage and Investment Division SE:W:CAS:SP  
 Chief, Program Evaluation and Improvement, Wage and Investment Division SE:W:S:RPA:PEI  
 Chief Counsel CC  
 National Taxpayer Advocate TA  
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 Director, Office of Program Evaluation and Risk Analysis RAS:O  
 Office of Internal Control OS:CFO:CPIC:IC

Audit Liaison: Chief, Program Evaluation and Improvement, Wage and Investment Division  
SE:W:S:PRA:PEI

## Appendix IV

### **Outcome Measures**<sup>[28]</sup>

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

#### **Type and Value of Outcome Measure:**

- Revenue Protection – Potential; \$412,454,748 in tax refunds related to 690,658 Applications for IRS Individual Taxpayer Identification Number (Form W-7) attached to 1,171,355 individual tax returns processed in Calendar Years 2008 or 2009; \$2,062,273,740 projected over 5 years (see page 5).<sup>[29]</sup>

#### **Methodology Used to Measure the Reported Benefit:**

From the data provided by the IRS, computer analysis was used to stratify and identify a universe of 1,530,006 ITINs assigned during the period January 1 through November 21, 2008. The universe of 1,530,006 ITINs was separated into 3 strata: 1) 1,167,136 ITINs resulting from Forms W-7 directly mailed or submitted through an IRS office, 2) 341,931 ITINs resulting from Forms W-7 submitted by domestic Certified Acceptance Agents, and 3) 20,939 ITINs resulting from Forms W-7 submitted by foreign Certified Acceptance Agents. Statistical sampling was used to identify and review:

- 123 Forms W-7 from stratum 1.
- 348 Forms W-7 from stratum 2.
- 187 Forms W-7 from stratum 3.

We used a confidence level of 95 percent, with a precision factor of  $\pm 5$  percent and expected error rates of 10 percent for stratum 1, 35 percent for stratum 2, and 15 percent for stratum 3.

- For stratum 1, 123 Forms W-7 were obtained from the IRS Federal Record Center.
- For strata 2 and 3, letters were mailed to domestic and foreign Certified Acceptance Agents requesting Forms W-7, supporting documents, and tax returns. These 2 samples were limited to 348 for stratum 2 and 187 for stratum 3.

Tax return information was extracted from the IRS Individual Returns Transaction File<sup>[30]</sup> for Calendar Years 2008 or 2009 or from the Integrated Data Retrieval System,<sup>[31]</sup> with command codes<sup>[32]</sup> SUMRY, TXMDOA, IMFOLI, IMFOLT, INOLES and INOLEX. The data were used to determine the refunds issued and tax liability owed for each of 510 ITINs. For the 658 Forms W-7 reviewed, 510 (78 percent) Forms W-7 were not adequately supported or errors were found on the Forms W-7. Based on the results, an estimate was calculated from the universe of ITINs totaling \$1,929,001,682 in refunds or balance dues totaling \$66,307,028 that were issued due to errors identified during the review. A 95 percent confidence interval was used to determine that the amount of refunds issued for the population is between \$620,787,671 and \$204,121,824. The margin of error is  $\pm 208,332,923$ .

In summary, a total of 1,171,355 returns allowed \$412,454,748 in refunds for Calendar Years 2008 or 2009. A determination was made that over 5 calendar years \$2,062,273,740 in revenue could be protected. The \$2,062,273,740 was calculated by multiplying \$412,454,748 by 5. It should be noted that these outcomes are refunds calculated without the inclusion of the Child Tax Credit and Additional Child Tax Credit because



of the IRS' response to a prior Treasury Inspector General for Tax Administration report issued March 31, 2009.<sup>133</sup> In the prior report, the Treasury Inspector General for Tax Administration recommended that legislation is needed to clarify whether or not refundable tax credits such as the Additional Child Tax Credit may be paid to filers without a Social Security Number.<sup>134</sup> The IRS responded that it will discuss with the Office of Tax Policy, Department of the Treasury, the merits of an administration proposal to amend the Internal Revenue Code to limit eligibility for *both* the Child Tax Credit and Additional Child Tax Credit to individuals who have a Social Security Number issued by the Social Security Administration rather than a number issued to an alien not authorized to work in the U.S. Therefore, both Credits were excluded from the outcomes.

The outcome is potential and based on the realization that the outcome measure includes all errors identified, but was not stratified by whether the error could prevent a tax return from being filed. In addition, the outcome is contingent upon enhancement of internal controls.

**Type and Value of Outcome Measure:**

- Revenue Protection – Potential; \$175,815,700 in tax refunds related to 60,333 tax returns submitted during Calendar Years 1996 through 2008 and attached to 121,601 individual tax returns processed in Calendar Year 2008; \$879,078,500 projected over 5 years (see page 14).

**Methodology Used to Measure the Reported Benefit:**

From the data provided by the IRS, computer analysis was used to identify a universe of 14 million ITINs assigned from Calendar Years 1996 through 2008. A volume of 60,333 ITINs was identified as being used on multiple tax returns. The volume of 60,333 ITINs was matched to the IRS Returns Transaction File to determine the volume of tax returns processed in Calendar Year 2008. The analysis of the 60,333 ITINs determined 121,601 tax returns were filed. Of the 121,601 tax returns - 76,998 (63 percent) ITINs were used for dependents, 31,287 (26 percent) were used for secondary taxpayers (spouses), and 13,316 (11 percent) were used for primary taxpayers. A total of 72,333 multiple ITINs were used on these tax returns. Based on the volume of tax returns, refunds were found in the amount of \$202,271,388 and tax due in the amount of \$26,455,688.

In summary, a total of 72,333 multiple ITINs used on 121,601 multiple tax returns allowed \$175,815,700 in refunds for Calendar Year 2008. Because this could be a recurring issue, a determination was made that over 5 calendar years, revenue could be increased by \$879,078,500. The \$879,078,500 was calculated by multiplying \$175,815,700 by 5. The outcome is potential and contingent upon enhancement of internal controls preventing ITINs from being used on multiple tax returns.

**Type and Value of Outcome Measure:**

- Reliability of Information – Potential; 318,107 taxpayer ITIN Forms W-7 were incorrectly input into the IRS Real-Time System; 1,590,535 projected over 5 years (see page 16).

**Methodology Used to Measure the Reported Benefit:**

From the data provided by the IRS, computer analysis was used to stratify and identify a universe of 1,549,397 ITINs assigned during the period January 1 through November 21, 2008. The universe of 1,549,397 Forms W-7 was separated into 5 strata: 1) 1,167,136 ITINs resulting from Forms W-7 directly mailed or submitted through an IRS office; 2) 341,931 ITINs resulting from Forms W-7 submitted by domestic Certified Acceptance Agents; 3) 20,939 ITINs resulting from Forms W-7 submitted by foreign Certified Acceptance Agents; 4) 12,394 ITINs resulting from Forms W-7 submitted by Acceptance Agents; and 5) 6,997 ITINs resulting from Forms W-7 submitted with no designation of Acceptance Agent or Certified Acceptance Agent. Statistical sampling was used to identify and review:

We used a confidence level of 95 percent, with a precision factor of  $\pm 5$  percent and an expected error rate of 10 percent for strata 1, 4, and 5. We used a confidence level of 90 percent, with a precision factor of

± 5 percent for strata 2 and 3 with expected error rates of 10 percent and 7 percent, respectively. See Figure 1 for the results for strata and projection analysis.

**Figure 1: Sampling and Projection Analysis**

Sample	Stratum	Sample Size	Stratum Population	Projected Errors
Direct Mail	1	123	1,167,136	265,689
Domestic Certified Acceptance Agents	2	91	341,931	41,332
Foreign Certified Acceptance Agents	3	63	20,939	7,644
Acceptance Agents	4	136	12,394	2,187
No Designation	5	134	6,997	1,253
<b>Total</b>			<b>1,549,397</b>	<b>318,107<sup>[35]</sup></b>

*Source: TIGTA statistical sample and analysis.*

The 547 Forms W-7 were reviewed and compared to the ITIN Real-Time System and 110 were identified as having been input incorrectly. Based on the sample results, an estimate was calculated from the universe of 1,549,397 Forms W-7, which determined 318,107 Forms W-7 had been input incorrectly. The number of affected Forms W-7 is between 228,230 and 407,984 (the margin of error is ± 89,877).

## Appendix V

### **Acceptable Documents When Applying for an Individual Taxpayer Identification Number**

The following documents are acceptable by the IRS when applying for an ITIN:

- Civil Birth Certificate.
- Foreign Driver's License.
- Foreign Military Identification Card.
- Foreign Voter's Registration Card.
- Medical Records (Dependent's Only – under age 14; under age 18 if a student).
- National Identification Card. The document must be current and contain the individual's name, address, photograph, date of birth, and expiration date (e.g., Mexican Matricula card).
- Passport (Stand Alone Document).
- School Records (Dependent's Only - under age 14; under age 18 if a student).
- U.S. Citizenship and Immigration Services Photo Identification.
- U.S. Driver's License.
- U.S. Military Identification Card.
- U.S. State Identification Card.
- Visa Issued by the U.S. Department of State.

## Appendix VI



## **Errors Identified in Application Packages Categorized by Sample**

	Directly Mailed or Submitted to an IRS Office		Certified Acceptance Agent Residing in the U.S.		Certified Acceptance Agent Residing Outside the U.S.	
Requested documents were not provided	NA	NA	81	23%	21	11%
Documents missing, incomplete, questionable, or illegible	19	15%	191	55%	131	70%
Forms W-7 not signed and/or dated	15	12%	149	43%	67	36%
Certificates of Accuracy missing	NA	NA	80	23%	4	2%
Inconsistent birth dates	9	7%	13	4%	0	0%
Entry date conflicts with documents	6	5%	35	10%	NA	NA
Names on documentation inconsistent with Form W-7	15	12%	52	15%	74	40%
Tax returns not provided	NA	NA	102	29%	7	4%

Source: Treasury Inspector General for Tax Administration analysis of Forms W-7 processed in Calendar Year 2008.  
NA=Not Applicable. Form W-7 = Application for IRS Individual Taxpayer Identification Number.  
The percentages will not total to 100 due to packages containing more than 1 type of error.

## **Appendix VII**

### **Rules for Claiming the Child Tax Credit and the Additional Child Tax Credit**

The child must meet all five tests listed below to qualify for the Child Tax Credit and Additional Child Tax Credit.

1. The child must be the taxpayer's son, daughter, stepchild, foster child, brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, a grandchild, niece, or nephew).
2. The child must be under age 17 at the end of the tax year.
3. The child must not have provided more than one-half of his or her own support for the tax year.
4. The child must have lived with the taxpayer for more than one-half of the tax year.<sup>1361</sup>
5. The child must be a U.S. citizen, a U.S. national,<sup>1371</sup> or a resident of the U.S. *U.S. Tax Guide for Aliens* (Publication 519) states that an individual will be considered a U.S. resident for tax purposes if he or she meets the substantial presence test for the calendar year. To meet this test, the individual must be physically present in the U.S. on at least 31 days during the current year, and 183 days during the 3-year period that includes the current year and the 2 years immediately before.





## Appendix VIII

### **Management's Response to the Draft Report**

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

COMMISSIONER  
WAGE AND INVESTMENT DIVISION

OCTOBER 22, 2009

MEMORANDUM FOR      MICHAEL R. PHILLIPS  
                                 DEPUTY INSPECTOR-GENERAL FOR AUDIT

FROM:                     Richard Byrd, Jr. /s/ Richard Byrd  
                                 Commissioner, Wage and Investment Division

SUBJECT:                 Draft Audit Report - Individual Taxpayer Identification  
                                 Numbers Are Being Issued Without Sufficient Supporting Documentation  
                                 (Audit # 200940006)

I reviewed the subject draft report and thank you for recognizing the challenges we face in administering the Individual Taxpayer Identification Number (ITIN) program. We have issued 16 million ITINs from the inception of the program in July 1996 through September 2009. The IRS is committed to ensuring that all Forms W-7, *Application for IRS Individual Taxpayer Identification Number*, are efficiently and effectively processed, that ITINs are issued only to individuals who are not eligible to obtain a Social Security Number (SSN) from the Social Security Administration, and that ITIN applicants have a legitimate tax administration purpose for obtaining the number.

We continue to make ITIN program improvements, which include:

- Redesigning the ITIN Internal Revenue Manual (IRM) to more clearly communicate policy and procedures to all users.
- Working to develop a comprehensive compliance review of the ITIN program.

We acknowledge that there are additional steps we can take. Specifically, we agree that guidelines related to processing Forms W-7 should be revised. We also agree that the ITIN Real-time System (ITIN RTS) should be enhanced and the information input to that system should be accurate.

As previously discussed with your auditors, we have a major concern with the sample of Forms W-7 selected by the Treasury Inspector General for Tax Administration for this audit. In Figure 1 of your report, you acknowledge that Certified Acceptance Agents (CAAs) represent only 23 percent of the total Forms W-7 submitted for 2008. You stated that you intentionally weighted the sample with CAA cases because you surmised from the previous audit, *Inadequate Management Information Has Adversely Affected the Acceptance Agent Program* (Reference Number 2009-40-087, dated June 19, 2009), that this was an area of concern. As a result of your use of this over-sampling of CAA applications methodology, we believe the conclusions identified in your report are not a true representation of the overall program.

We also would point out that on Page 13 of your report you note that \*\*\*\*1\*\*\*\* However, this is not an accurate statement since Sections 151 and 152 of the Internal Revenue Code do not require parenthood. Therefore these exemptions would not necessarily be denied.

We agree with the first two Outcome Measures in the report. We disagree with the third Outcome Measure that 318,107 taxpayer ITINs were incorrectly input to the ITIN RTS. The calculation should be  $(110/547) \times 1,549,397 = 311,579$ . This also changes the 5year projected number to 1,557,895.

Attached are our comments on your specific recommendations. If you have any questions, please call me at (404) 338-7060, or a member of your staff may contact Peter J. Stipek, Director, Customer Account Services, Wage and Investment Division, at (404) 338-8910.

Attachment

Attachment

The Commissioner, Wage and Investment Division, should revise:

#### **RECOMMENDATION 1**

Guidelines related to processing applications submitted by Certified Acceptance Agents to ensure that the Forms W-7 match the information on the certificates of accuracy before issuing ITINs, and that any supporting documents submitted with the certificates of accuracy are reviewed with the same due diligence as required for Forms W-7 and supporting documents submitted directly to the IRS by individual applicants.

#### **CORRECTIVE ACTION**

We agree with this recommendation and have taken steps to revise Form W-7, *Application for IRS Individual Taxpayer Identification Number*, instructions, Publication 4520, *Acceptance Agents Guide for Individual Taxpayer Identification Number*, and internal guidelines, Internal Revenue Manual (IRM) 3.2.263, to ensure consistency in these areas.

#### **IMPLEMENTATION DATE**

March 15, 2010

#### **RESPONSIBLE OFFICIAL**

Director, Submission Processing, Customer Account Services, Wage and Investment Division

#### **CORRECTIVE ACTION MONITORING PLAN**

We will monitor this corrective action as part of our internal management system of controls.

#### **RECOMMENDATION 2**

Guidelines related to processing applications submitted directly to the IRS to ensure that all information on the Forms W-7 is validated and consistent with supporting documentation. For example, employees should validate the gender, age, and date of entry.

#### **CORRECTIVE ACTION**

We agree with this recommendation and will update current guidance to ensure the information on the W-7, required to verify the applicant's identity, is validated and consistent with what is shown on supporting documentation.

#### **IMPLEMENTATION DATE**

January 15, 2010

#### **RESPONSIBLE OFFICIAL**

Director, Submission Processing, Customer Account Services, Wage and Investment Division



**CORRECTIVE ACTION MONITORING PLAN**

We will monitor this corrective action as part of our internal management system of controls.

**RECOMMENDATION 3**

Guidelines to ensure that the instructions for completing the Form W-7 and internal guidelines are consistent by clarifying who is required to complete a power of attorney, clarifying that prior versions of Form W-7 *may* be acceptable, and requiring that employees verify required applicants provide an entry date to the U.S.

**CORRECTIVE ACTION**

We agree with this recommendation and have taken steps to revise Form W-7 instructions, Publication 1915, *Understanding Your IRS Individual Taxpayer Identification Number (IT/N)*, Publication 4520, and internal guidelines, IRM 3.21 .263, to ensure consistency in these areas.

**IMPLEMENTATION DATE**

February 15, 2010

**RESPONSIBLE OFFICIAL**

Director, Submission Processing, Customer Account Services, Wage and Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

We will monitor this corrective action as part of our internal management system of controls.

**RECOMMENDATION 4**

The Commissioner, Wage and Investment Division, should develop controls to prevent ITINs from being used on multiple tax returns, including ITINs used for secondary taxpayers and dependents.

**CORRECTIVE ACTION**

We disagree with this recommendation. Tax returns submitted with a duplicate secondary/dependent ITIN are subject to Compliance review after the return is processed and corrected as necessary, similar to duplicate Social Security Number use.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A

The Commissioner, Wage and Investment Division, should:

**RECOMMENDATION 5**

Ensure the data on the Real-Time System are accurate and validate the records that indicate an agent submitted the application to ensure that the ITIN Program has accurate and reliable data to oversee the Program.

**CORRECTIVE ACTION**

We agree with this recommendation and are taking corrective actions to update the ITIN Real-time System (ITIN RTS). These actions are contingent on funding.

**IMPLEMENTATION DATE**

August 15, 2012

**RESPONSIBLE OFFICIAL**

Director, Submission Processing, Customer Account Services, Wage and Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

We will monitor this corrective action as part of our internal management system of controls.

**RECOMMENDATION 6**

Develop procedures and internal controls to monitor the Real-Time System to ensure information entered is accurate.

**CORRECTIVE ACTION**

We agree with this recommendation and are taking corrective actions to update the ITIN RTS with viable report capability which will allow the ITIN Program Office to appropriately monitor the ITIN RTS to ensure the information entered is accurate. This action is also contingent on funding.

**IMPLEMENTATION DATE**

August 15, 2012

**RESPONSIBLE OFFICIAL**

Director, Submission Processing, Customer Account Services, Wage and Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

We will monitor this corrective action as part of our internal management system of controls.

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[1]

An Acceptance Agent is a person (an individual or an entity) who, pursuant to a written agreement with the IRS, is authorized to assist alien individuals and other foreign persons (who are ineligible to receive a Social Security Number) in obtaining an ITIN from the IRS. The Acceptance Agent reviews the necessary documents and forwards the completed Form W-7 and supporting documents to the IRS. A Certified Acceptance Agent is authorized to certify whether the documented proof is adequate and is not required to send the supporting documentation to the IRS, but agrees to maintain a record of the documentation obtained and reviewed pursuant to the obligations set forth in the agreement.

[2]

A sample of Acceptance Agents was selected from the ITIN data but after review the applications were determined to be submitted by Certified Acceptance Agents and not Acceptance Agents.

[3]

An IRS office with employees who answer questions, provide assistance, and resolve account-related issues for taxpayers face to face.

[4]

*Inadequate Management Information Has Adversely Affected the Acceptance Agent Program* (Reference Number 2009-40-087, dated June 19, 2009).

[5]

The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

[6]

An IRS office with employees who answer questions, provide assistance, and resolve account-related issues for taxpayers face to face.

[7]

Supporting documents are not forwarded for individuals under 18 years of age.



[8] Appendix V contains a list of acceptable documents that can be used when applying for an ITIN.

[9] *The Internal Revenue Service's Individual Taxpayer Identification Number Creates Significant Challenges for Tax Administration* (Reference Number 2004-30-023, dated January 8, 2004).

[10] The Returns Transaction File contains all edited, transcribed, and error-corrected data from the U.S. Individual Income Tax Returns (Form 1040 series) and related forms for the current processing year and 2 prior years.

[11] The sample included cases from 2 populations: 123 applications mailed directly or submitted to an IRS office and 535 applications submitted through Certified Acceptance Agents. A larger sample and a higher expected error rate was used in the selection of Agents to consider the Agents that may not provide the requested documents. Appendix I provides details of our sampling methodology. Appendix VI provides a breakdown of the specific errors found in the cases.

[12] A sample of Acceptance Agents was selected from the ITIN data but after review the applications were determined to have been submitted by Certified Acceptance Agents and not Acceptance Agents.

[13] Totals will not add to 456 and percentages will not total to 100 percent because most cases had more than 1 error.

[14] Some ITIN cases had multiple tax returns filed in Calendar Years 2008 and 2009.

[15] The examples will not balance to the total errors because all errors were not included and most cases had more than one error.

[16] *Management Oversight of the Acceptance Agent Program Is Needed to Assure that Individual Taxpayer Identification Numbers Are Properly Issued* (Reference Number 2003-30-020, dated November 6, 2002) and *Inadequate Management Information Has Adversely Affected the Acceptance Agent Program* (Reference Number 2009-40-087, dated June 19, 2009).

[17] The period from January through mid-April when most individual income tax returns are filed.

[18] *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, dated November 1999).

[19] Internal Revenue Code Section 24. See Appendix VII for a list of the requirements to claim the Child Tax Credit and Additional Child Tax Credit.

[20] *Actions Are Needed to Ensure Proper Use of Individual Taxpayer Identification Numbers and to Verify or Limit Refundable Credit Claims* (Reference Number 2009-40-057, dated March 31, 2009).

[21] *Actions Are Needed to Ensure Proper Use of Individual Taxpayer Identification Numbers and to Verify or Limit Refundable Credit Claims* (Reference Number 2009-40-057, dated March 31, 2009).

[22] The primary taxpayer is the first name and Social Security Number reported on an individual tax return. If a joint return is filed, a secondary taxpayer is the second name and Social Security Number (e.g., spouse, reported on the return). A dependent is a person, other than a primary or secondary taxpayer, for whom you can claim an exemption and is reflected in the Exemption section of a tax return.

[23] The same ITIN could have been used on more than 1 type of tax return; refunds, balance due, or no taxes owed and will not total to 60,333 ITINs.

[24] IRS Lean Six Sigma study entitled, *Individual Taxpayer Identification Number, Control Tollgate*, dated February 21, 2008. The data contained in the study were collected in October and November 2007 and were not statistically valid for the entire applicant pool.

[25] The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

[26] The Returns Transaction File contains all edited, transcribed, and error-corrected data from the U.S. Individual Income Tax Returns (Form 1040 series) and related forms for the current processing year and 2 prior years.

[27] IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.

[28] Due to rounding, numbers and percentages may not balance.

[29] Only tax returns received from January 1 through November 21, 2008, were included in this analysis. Multiple paper tax returns may be attached to Form W-7 applications and are usually processed in the processing year in which they are received by the IRS. However, some tax returns were received in Processing Year 2008 but processed in Processing Year 2009. This happens when the tax return is received later in the year, the application is rejected and the ITIN is not assigned until later, or there is a problem with the tax return delaying the processing of the return. When the ITIN is assigned and if there are no problems with the tax return, the tax return is processed. However, if a tax return is received reflecting a balance due and the ITIN is not assigned, a temporary Taxpayer Identification Number is assigned to the tax return and the tax return is processed. The outcome measure was based on one filing of a tax return attached to the ITIN application received from January 1 through November 21, 2008, and then multiplied by 5 to determine the refunds that could potentially be paid over 5 years for tax returns received and attached to one ITIN application.

[30] The Returns Transaction File contains all edited, transcribed, and error-corrected data from the U.S. Individual Income Tax Returns (Form 1040 series) and related forms for the current processing year and 2 prior years.

[31] IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.

[32] Command codes are online interactive real-time programs in the IRS computer systems.

[33] *Actions Are Needed to Ensure Proper Use of Individual Taxpayer Identification Numbers and to Verify or Limit Refundable Credit Claims* (Reference Number 2009-40-057, dated March 31, 2009).

[34] *Actions Are Needed to Ensure Proper Use of Individual Taxpayer Identification Numbers and to Verify or Limit Refundable Credit Claims* (Reference Number 2009-40-057, dated March 31, 2009).

[35] Due to rounding, the individual samples will not total to 318,107. Calculations are based on 318,107.

[36] *Child Tax Credit* (Publication 972) contains some exceptions to the time lived with the taxpayer.

[37] A U.S. national is an individual who, although not a U.S. citizen, owes his or her allegiance to the U.S. U.S. nationals include American Samoans and Northern Mariana Islanders who chose to become U.S. nationals instead of U.S. citizens.